

**CONSUMER PROTECTION DIRECTORATE  
PRODUCTS AND SELLING PRACTICES DIVISION**

*REPORT*

**ANALYSIS OF TRENDS IN THE SUPPLY OF  
INSURANCE PRODUCTS**

*(January – June 2018)*



**November 2018**

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## ***Foreword***

Since the first semester of 2017, IVASS has published, at a six-month frequency, the results of the analyses of the trends in the supply of insurance products, in order to provide the various stakeholders with a periodic observatory and to prevent potential areas of risk.

This Report is the third document published by IVASS, and contains analysis and information<sup>1</sup> on the **launch of new insurance products** by insurance companies for the observation period from 1 January to 30 June 2018.

The analysis of the trends in insurance supply is one of the activities performed by IVASS for the purposes of monitoring emerging phenomena, critical areas, and related risks that can have repercussions on consumer protection and even initiate interventions by IVASS (letters to the market, warnings or recommendations published on the institutional website).

The analysis disregards the commercial success of the products and the level of premium income associated with them.

Any reference that may relate to commercial products or initiatives mentioned herein implies neither an evaluation of their content, nor approval thereof by IVASS.

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<sup>1</sup> For **life insurance** products, the information is obtained from the database present at IVASS and fed by the so - called "systematic notifications" containing the main technical characteristics of the products introduced onto the market, which companies are required to transmit according to EU provisions (implemented by art. 32, paragraph 6 of the Insurance Code). For the **non-life sector**, use is made of "open sources" (e.g. daily press reviews, portals, websites of the individual companies, etc.), in the presence of the existing ban at Community level on Supervisory Authorities to demand the systematic notification of data relating to the rates or conditions of the policy.

## ***Introduction and synthesis***

The analyses for the Italian insurance market in relation to the new offerings presented in this Report update the trend scenario provided by IVASS with the publication<sup>2</sup> of 13 March 2018 on the second half of 2017.

Paragraph 1 provides an update on the spread in Italy of ***instant insurance micro-policies***, thanks to partnerships between Insurtech start-ups and insurance companies. Through technological solutions that offer directly on the customers' smartphones a range of customised policies based on their specific on-demand requirements, it is possible to purchase insurance plans that cover several sectors (travel, persons, properties, health and sharing mobility) with a pay-per-use mode. The evolution in digitalisation applied to motor liability insurance, a trend that started some time ago and is increasingly strengthening, will also be discussed here.

Another emerging phenomenon, described in paragraph 2, refers to some signs coming from the insurance market concerning plans intended for small- to medium-sized enterprises (hereinafter SMEs) that aim at meeting the requirements for protecting the business of specific categories of companies, as well as at covering the risks arising from potential cyber attacks and threats against sensitive information, while ensuring compliance with new legal obligations such as those deriving from new laws in the area of personal data protection (GDPR)<sup>3</sup>.

Another trend concerns the growth and fine-tuning of insurance solutions with an “umbrella” coverage of a modular type (paragraph 3) that the insurance companies are offering in order to consolidate multiple insurance plans and services into one single and flexible instrument that enables customers to add and modify over time different guarantees according to their specific changing needs.

Finally, paragraph 4 provides an overall picture of the new offerings in the Life sector, compared with those offered in the second half of 2017, which shows the

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<sup>2</sup> [IVASS - Report on the Analysis of trends in the supply of insurance products - Second half of 2017](#)

<sup>3</sup> Regulation (EU) 2016/679.

adoption, by the insurance companies, of commercial strategies that focus on hybrid<sup>4</sup> or unit-linked-type solutions rather than on traditional product types.

## **1. DIGITIZATION**

### **1.1 SYNERGIES BETWEEN TRADITIONAL INSURANCE COMPANIES AND INSURTECH**

#### **START-UPS**

In the digital era, insurance companies are improving their operating models in order to ensure a better customer experience, making the best use of the strengths of both the digital and traditional channels. In fact, several companies are developing a digitally integrated system that connects insurers and customers through an efficient flow of information and services. A system which, in fact, supports customised and instantaneous services that the customers, used to digital technologies applied to the purchase of other types of goods and services, have increasingly come to expect from the insurance sector as well. This is the direction where the cooperation between traditional insurance companies and the Insurtech start-ups is heading.

The widespread in Italy of micro-policies based on instant insurance continues with technological platforms that offer, directly on the customers' smartphones, some temporary insurance policies, of short duration, that would meet their specific needs at that particular time. These are insurance coverages of small amounts which, for the simplicity of the purchase process, are suitable for their sales on the go.

While in Italy the first examples<sup>5</sup> were policies limited to meeting specific and not daily requirements, such as travel (e.g. assistance, flight delays, lost luggage) or accident insurance for non-competitive sport activities (e.g. one day of skiing), the following insurance services are now being offered for:

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<sup>4</sup> Insurance solutions that include, traditionally, a with-profit component where the performance is linked to the yield from segregate funds, and a unit-linked component.

<sup>5</sup> Paragraph 3, [IVASS - Report on the Analysis of trends in the supply of insurance products - Second half of 2017](#)

- appliances (e.g.: washing machine, dishwasher, oven, etc.) and electronic devices (HI-FI, TV LCD-LED, etc.) with dedicated assistance by phone, support from specialised technicians in addition to the reimbursements of expenses for having to go to a hotel if the damage prevents the policy holders from staying in the home or if they must return home early due to some breakdowns that occurred while they were far away from home. The customer who intends to use this service must register, also through an app, on the web site of the intermediary and/or insurance company by entering some information such as type, brand, model and date of purchase of the products for which the service activation is requested;
- smartphones and tablets, with guaranteed telephone support, pick-up and delivery of the product, repair of the breakage, replacement or reimbursement in the case of unrepairable damages following accidental events such as falling, contact with liquids, short circuits and fire.

An insurance group has launched a micro-policy of a parametric type concerning flights, which uses the blockchain technology to protect data inviolability and coverage against flight delays. The user who has already purchased the flight ticket may activate via web this coverage within 15 days before departure and, once the policy is registered, the blockchain system creates a “smart contract” that automatically manages the payments. The insurance coverage applies only to the flight leg indicated in the policy and the compensation is automatically executed as soon as the system records the delay of the flight, regardless of the reason, whether it is because of weather conditions or in the event of a breakdown of the plane or any other airport issues.

Increasingly widespread is the use, in large cities, of shared mobility formulas (Car-Scooter-Bike/sharing), together with the technological advancements in mobility implemented on different transportation means (cars, underground, bicycles, etc.) and representing a multi-modal model that may impact road traffic patterns and consequently the insurance sector. Being able to choose, as the case may be, the most suitable solution for travelling and the most efficient means of transportation

represents a behavioural revolution that involves an increasingly high number of people, especially the younger generations.

A community of car rental/sharing, in cooperation with an insurance partner, has included in its platform an insurance that protects both the owner and the driver of each vehicle being shared with a duration not exceeding 28 days. The coverage, valid for the period of use of the means of transportation, is a supplemental insurance policy in addition to the one already provided with the vehicle<sup>6</sup>, which comprises KASKO, theft and fire, as well as, if applicable, the bonus-malus increase and a road assistance service<sup>7</sup>.

## **1.2 CONNECTED CARS. BEHAVIOURAL TARIFFS**

The Italian motor liability sector has been for some years subject to a real technological revolution, with a widespread increased use of connected cars – through black boxes or other electronic devices – that has now reached a significant level<sup>8</sup>.

An emerging phenomenon concerns the so-called behavioural tariffs<sup>9</sup>, where the premium, at the time of renewal, is calculated on the basis of algorithms that assess the past driving style of the driver, based on the monitoring of an increasingly wider range of parameters and constraints that must be complied with; some of these are:

- percentage of Kilometres covered at speeds exceeding the limits set in the Road Code;

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<sup>6</sup> When input the vehicle data onto the platform, the owner will be required to indicate, in addition to the main information about the motor liability insurance, any additional insurance that is already covering the vehicle.

<sup>7</sup> The insurance guarantees include: Assistance; Injury to the driver; Legal expenses; Land vehicles; Financial loss. It must be noted that, according to the chosen option (from three available options) the coverage Assistance may include “Roadside assistance” and “Depannage”; the latter is activated when the vehicle remains immobilised because of lost or broken keys, a flat tire or a dead battery. Furthermore, the coverage of financial losses provides for, within set maximum amounts and if the vehicle cylinder capacity exceeds 1.6 cc, a compensation to the policyholder of the financial losses deriving therefrom for the higher classification (bonus/malus) following a road accident for at fault or partial fault (50%).

<sup>8</sup> <https://www.ivass.it/pubblicazioni-e-statistiche/statistiche/bollettino-statistico/2018/n11/index.html>

<sup>9</sup> In addition to the behavioural profiling of the customer, more smartphone based technologies with self-installing devices are observed, together with services in real time through feedback systems on the driving style and automated assistance in the case of an accident.



- percentage of accelerations/decelerations exceeding a set threshold based on the type of road (urban, non-urban);
- number and intensity of accelerations and decelerations while driving;
- aggressive driving in curves;
- speeds and capacity to see in advance hazardous situations present at cross roads, on curves and rectilinear roads.

In the connected policies, all the factors related to the driving style and the automated features of the black boxes and electronic devices in use, are becoming more and more important. Some limits in the precision of the measured technical parameters (e.g. a pot hole or a jolt because of a bump may activate a mini-crash alert system or the impossibility of locating the vehicle inside tunnels or underground passages) represent an element requiring attention because of the possible controversies that may arise.

## **2. INSURANCE RESPONSES TO NEW COVERAGE NEEDS OF THE SMES**

With reference to traditional risks to which the SMEs are typically exposed, such as fire, theft, civil liability toward other parties, new plans are offered to protect the business of specific categories of companies.

As regards manufacturing, a greater number of insurance solutions are offered to small and medium sized enterprises engaged in production, processing and maintenance in the metallurgical, textile, food and chemical sectors. These insurance plans cover civil liabilities, assistance, fire, theft/robbery, merchandise, legal protection and electronic systems for which the price is defined using a set of variable tariffs including: merchandising activities, geographic location of the risk, number of employees, presence of an alarm system, of a concierge or a surveillance system.

In support of the SMEs of the agricultural sector, some insurance coverages and services are offered for the protection of damages caused by weather that may affect the insured agriculture crops such as wine grapes, rice, corn and wheat. Thanks to technologically developed apps, the farmers are assisted in their monitoring of the



crops and in carrying out measurements on the health of the foliage and the nitrogen contents of the plants<sup>10</sup>. In addition, it is possible to receive detailed weather information, for the next three day period, based on the type of insured crop, regarding temperature, rain and wind and some automated alerts when the parameters exceed the thresholds for possible damage to the crops due to an adverse weather forecast.

The new trends in digital innovation are increasing the concerns about cyber security to which the SMEs are particularly exposed due to their more limited organisational and financial resources. Due to these concerns, Italian firms often adopt policies for the prevention of an event or its management after it occurs; they rarely protect themselves by purchasing an insurance policy. However, also due to the entry into force of the GDPR, the insurance companies are encouraged to develop new stand-alone products and solutions covering cyber risks.

Insurance policies intended for SMEs cover civil liability when a damage compensation is claimed by third parties for the leaking of personal information and the intrusion of ransomware<sup>11</sup>, or the publication of information damaging the reputation and the privacy of third parties as a consequence of an IT incident, or when a request for support is submitted in compliance with the GDPR obligations. These policies also cover damages suffered because of the interruption of their activity or caused by the loss of sensitive data or of electronic archives as well as all related recovery costs.

### **3. MODULAR PRODUCTS**

The modular business model, already introduced and developed over time in the Italian market, has confirmed its appeal with the launch of a new range of plans – with coverage spanning across the areas of Family, Health and Goods – focusing on management and support of the life cycle of the customer with special attention

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<sup>10</sup> e.g.: taking some pictures of the rice plants, the app can process in real time information on the quantity of biomass and on the vegetative development of that land as well as calculate the nitrogen index to understand whether the nitrogen distribution is homogeneous.

<sup>11</sup> This is a type of malware that restricts the access of the device that it has infected, asking for a payment in order to remove this restriction.

given to the post-sale phase and the analysis, monitored over time, of insurance requirements. This approach to insurance plans is well suited for modular products which, thanks to their flexibility, easily allow adding, modifying and cancelling insurance guarantees over time, while combining them into a single contract.

The insurance plans cover:

- **Family:** civil liability of the head of the family, legal protection, purse-snatching and theft<sup>12</sup>, assistance<sup>13</sup> and prevention<sup>14</sup>;
- **Health:** accidents, compensation for fractures, loss of a school year<sup>15</sup>; cosmetic injury<sup>16</sup>;
- **Properties:** the house and its contents with protection from events such as fire, flooding resulting from pipes breaking, electrical damage, theft.

#### 4. TRENDS IN THE LIFE SECTOR

In the first half of 2018, the overall picture related to trends in the Life sector shows a recovery in the launch of new plans compared with the second half of 2017, in line with a cyclical pattern recorded in the last few years which is typical of the first half of the year when the companies show more dynamism in promoting new products.

Based on the systematic notifications containing the main technical characteristics of recently marketed Life products entered into the IVASS database, 378 new products were recorded of which 60% referring to individual forms (227) and 40% to collective forms (151).

As regards the main **individual tariff types**<sup>17</sup>, it should be noted that the increasing with profit policies continue to lose ground compared with the hybrid products (with

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<sup>12</sup> Including a theft following an accident or a sudden illness.

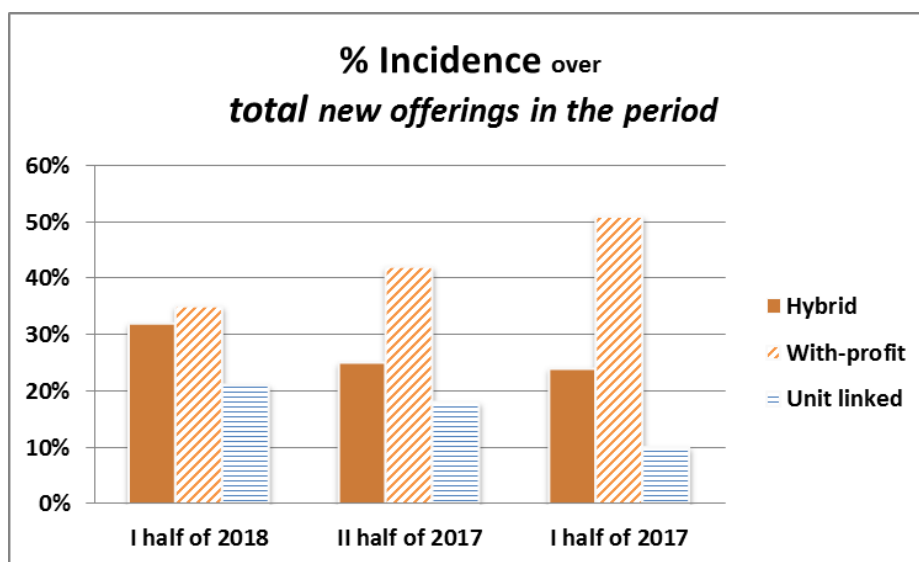
<sup>13</sup> Paediatric consultation, possibility of having a baby sitter directly at the house, school support with a teacher coming to the house of an injured child.

<sup>14</sup> Check ups, medical consultation, diagnostic analyses.

<sup>15</sup> These are compensations following an accident that causes many months of absence, or failing a school year or impossibility of taking tests in elementary, middle and high schools.

<sup>16</sup> The compensation is due in the case of a surgery to remedy a cosmetic injury caused by an accident.

profit - class I and unit-linked - class III) as shown in the following graphic depicting the impact of new products, broken down by tariff type and for each half-year period, over the total new individual offers reported in each period.



In the first half of 2018 the following is noted:

- with profit , hybrid and unit-linked products, in 80% of the cases they correspond to a **single premium** with a share of the **loading**, applied to the premiums, that generally does not exceed 5% (in line with observations in the previous half year) and, in many cases, is even equal to zero. Fixed amounts, in terms of costs, are also separately present according to the type of tariff, although, especially for the with profit ones and the hybrid ones, the weight of the new products in which said costs equal zero prevails. Indirect loading is always applied through withholdings from the yield obtained from segregate funds (normally ranging from a minimum of 0.4% to a maximum of 2.5%) and management fees on the unit component (normally ranging from a minimum of 0.5% to a maximum of 3.91%);

<sup>17</sup> The analyses refer to aggregate data on the number of new products offered by the insurance companies without any reference to premium collection. As they are reconciled, the data might undergo approximations connected with the re-classification of the underlying tariffs that might not be univocal for each product.

- similarly to the previous half year periods, with profit products provides, almost exclusively (about 80%), **minimum guaranteed** rates equal to **0%**<sup>18</sup>, with the guarantees structure mostly dependent on an **annual consolidation** mechanism. In the other cases, an annual mean yield is expected to the expiry date;
- in the first half of 2018, 9 new pure risk products were reported (not present in the previous six month period) that refer to mortgages and loans. Among these, to be noted are 2 term life insurances with the advanced payment of a single premium for loan transactions guaranteed by pensions (APE) <sup>19</sup>.

In the first half of 2018, the launch in the Italian market of the so called Insurance PIR [Individual Saving Plans]<sup>20</sup>, i.e. unit-linked or hybrid life products, which are characterised by their investment nature and contractual duration thus meeting the requirements set forth in the 2017 budget law, continued. Overall, the recorded launch of these types of solutions was less extensive given the 8 new products offered compared with the 17 reported in the second half of 2017; they continue to be mainly of a hybrid type based on a single premium with loadings almost in line with the previous half year, to an extent that normally never exceeds 3%.

A final new piece of information: following changes introduced by IVASS in the area of segregate funds for with profit life policies with Provision no. 68 of 14 February 2018, an insurance company has resolved, at the approval time of its half-year financial statements, on the creation of a bonus fund to which a new product can be linked.

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<sup>18</sup> Among the rest of the cases, some coverage amounts generally may range between 0.02% and 0.5%.

<sup>19</sup> This refers to term life tariffs with a single premium with capital increase in the pre-pension phase and capital decrease in the repayment phase for agreements based on advances on the pension. The insured capital is identified month by month for the entire duration of the APE payments, as per the loan plan and, during the APE repayment period is equal to the amount of the residual debt, i.e. the amount of the loan and related contractual interests not yet paid back.

<sup>20</sup> The Italian Government has introduced them with the 2017 budget law (Law no. 232 of 11 December 2016) in order to support Italian small-medium sized enterprises, setting forth major tax incentives for investors provided that the investment is held for at least 5 years.